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Audit of the Department of State's Process to Identify and Transfer Excess Working Capital Funds

FINANCIAL MANAGEMENT DIVISION

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OIG HIGHLIGHTS

AUD-FM-18-44

Audit of the Department of State's Process to Identify and Transfer Excess Working Capital Funds

What OIG Audited

The Foreign Assistance Act of 1963, codified at 22 U.S. Code § 2684, established the Department of State's (Department) Working Capital Fund (WCF), which is funded by reimbursements or advanced payments for "supplies and services at rates which will approximate the expense of operations." The law states that "[t]here shall be transferred into the Treasury as miscellaneous receipts, as of the close of each fiscal year, earnings which the Secretary of State determines to be excess to the needs of the fund."

The Office of Inspector General (OIG) conducted this audit to determine whether the Department transferred excess working capital funds to the Department of the Treasury (Treasury) annually, as prescribed by the Foreign Assistance Act of 1963, codified at 22 U.S. Code § 2684.

What OIG Recommends

OIG made three recommendations to the Bureau of Administration and one recommendation to the Bureau of Budget and Planning that are intended to improve the Department's pricing methodologies, internal controls, and processes for the WCF. On the basis of the Department's responses to a draft of this report, OIG considers one recommendation unresolved and three recommendations resolved pending further action. A synopsis of the Department's responses to the recommendations offered and OIG's reply follow each recommendation. The Department's responses to a draft of this report are reprinted in their entirety in Appendices B and C. Summaries of the Department's general comments and OIG's replies are presented in Appendices D and E.

What OIG Found

The Department could not demonstrate that it annually determined whether excess earnings exist in its WCF accounts, and it has not transferred any excess earnings to Treasury. Specifically, as of December 2017, Bureau of Administration, Office of the Executive Director, Working Capital Fund Division (A/EX/WCF) officials had provided no documentation that it determined if excess earnings exist within any of the nine service centers that A/EX/WCF manages, nor has the Department transferred any excess earnings to Treasury. Federal law, however, has required the Secretary to determine and return excess WCF earnings to Treasury since 1963.

This occurred, in part, because the Department has not established adequate policies and procedures to implement the statutory requirement to evaluate and remit excess earnings to Treasury. Specifically, OIG found that A/EX/WCF did not have policies and procedures to annually determine the appropriate carry forward fund amounts for WCF cost centers or the amount in excess earnings to transfer to Treasury. As the Department bureau responsible for the oversight of nine WCF service centers, A/EX/WCF should have established appropriate policies and procedures to comply with all laws and regulations pertaining to the WCF.

As a result of these deficiencies, OIG is unable to independently determine the extent to which excess earnings should have been transferred to Treasury from FY 2015 to FY 2017. Moreover, until A/EX/WCF establishes the means to determine excess earnings and implement the WCF transfer requirement, the Department will remain unable to advance a primary purpose of the WCF, namely, to provide an effective means for controlling the costs of goods and services and encourage cost consciousness and efficiency for users and suppliers of services.

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OBJECTIVE

The objective of this audit was to determine whether the Department of State (Department) transferred excess working capital funds to the Department of the Treasury (Treasury) annually, as prescribed by the Foreign Assistance Act of 1963,[1] codified at 22 U.S. Code § 2684.[2]

BACKGROUND

The Government Accountability Office's (GAO) *Principles of Federal Appropriations Law* defines a working capital fund as an "intragovernmental revolving fund that generally finances the centralized provision of common services within an agency."[3] Revolving funds are established by a particular law and allow agencies to fund specific "business-like" operations without a direct appropriation from Congress. Revolving funds are considered permanent appropriations and generally do not have fiscal year restraints (that is, funds are considered "no year" money).[4] However, unless specifically exempted, funds in a revolving fund are subject to the various purpose, time, and amount limitations and restrictions applicable to appropriated funds.[5]

Revolving funds are intended to operate on a break-even basis over the long term. According to the *Principles of Federal Appropriations Law*, this means that "the fund should not augment its working capital by retaining funds in excess of what it needs to cover its costs. To nudge this process along, revolving fund statutes frequently include the requirement for the periodic payment of surplus amounts to the general fund of the Treasury."[6]

The Department's Working Capital Fund

The Foreign Assistance Act of 1963, codified at 22 U.S. Code § 2684, established the Department's Working Capital Fund (WCF), which is funded by reimbursements or advanced payments for "supplies and services at rates which will approximate the expense of operations."[7] The law further states that "[t]here shall be transferred into the Treasury as miscellaneous receipts, as of the close of each fiscal year, earnings which the Secretary of State (Secretary) determines to be excess to the needs of the fund."[8]

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[1] Foreign Assistance Act of 1963, Public Law 88-205, § 405, December 16, 1963.

[2] 22 U.S. Code § 2684, "Capital Fund for Department of State."

[3] GAO, *Principles of Federal Appropriations Law,* 3rd ed., Vol. III, Chapter 12, Section C.3.c(1), "Working capital funds," at 12-100 (GAO-08-978SP, September 2008).

[4] GAO-08-978SP, Chapter 12, Section C.1, "Introduction," at 12-85.

[5] GAO-08-978SP, Chapter 12, Section C.4, "Expenditures/Availability," at 12-106.

[6] GAO-08-978SP, Chapter 12, Section C.5, "Augmentation and Impairment," at 12-128.

[7] Public Law 88-205, § 405.

[8] 22 U.S. Code § 2684 (a), "Establishment of fund."

The Foreign Affairs Handbook[9] (FAH) states that the WCF is intended to:

- Provide a more effective means for controlling the costs of goods and services produced by commercial-type activities.
- Provide an effective and flexible way to finance, budget, and account for commercial-type activities.
- Encourage cost consciousness and efficiency for users and suppliers of services.
- Promote a buyer-seller relationship between the producing activity and the customer.

For example, telephone services are provided to bureaus and offices in the Department through the "Telephone and Wireless Services" WCF cost center, which charges users a fee that is based on the type of service provided. According to a prior OIG report, the Telephone and Wireless Services cost center charges such fees for installation and recurring services.[10] The Telephone and Wireless Services cost center then uses those fees to pay vendors, such as telephone companies, for the services provided to Department customers. Consolidating the effort to provide telephone and wireless services within one WCF cost center potentially creates efficiencies and cost savings, which is the WCF's intent.

The Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017 Operating Plan, states that each WCF cost center provides unique services to customers, such as support for aviation, publishing, and shipping and freight.[11] Cost centers are assigned a "service center," which is created for easier program and financial management. Sometimes, multiple, related cost centers are grouped together. For example, the 10 cost centers related to shipping are grouped in the "Freight Forwarding" service center.

The Department accounts for WCF activities in the financial management system by using fund symbols[12] and allotment codes.[13] The Department's FY 2017 Congressional Budget Justification (released in February 2016) identified 12 service centers as part of the WCF. A thirteenth service center (Special Issuance Agency) was added to the WCF in FY 2017.[14] Generally, each service center includes one or more cost centers, which are assigned allotment codes.[15] Financial information is tracked in the Department's financial system using each cost center's allotment

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[9] 4 FAH-3 H-113.4-3 (a), "Working Capital Fund."

[10] OIG, *Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center* (AUD-FM-16-32, March 2016). OIG reported issues related to the methodology used to establish the fees in the cost center.

[11] "Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017 Operating Plan," July 2017.

[12] 4 FAH-1 Exhibit H-113, "Account Classification Structure," states that a fund symbol "identifies the appropriation fund, the agency or agencies involved, the fiscal year or years included, the Treasury account symbol and the limitations, if any."

[13] 4 FAH-1 Exhibit H-113 states that allotment codes identify the general type of expenses and the allottee.

[14] The WCF does not include the International Cooperative Administrative Support Services program, through which U.S. Government agencies share the cost of common administrative support services at diplomatic and consular posts overseas. This is a separate working capital fund account in the Department's financial system.

[15] Service centers that only include one cost center are identified in the financial management system by the cost center allotment code.

code. Table 1 shows the alignment of fund symbols to service centers, cost centers, and allotment codes.

Table 1: Working Capital Fund Service Centers During FY 2017

Fund Symbol	Service Center	Cost Center	Allotment Code
19X4519.0	Administrative Expense	WCF Administration	8680
	Freight Forwarding	Washington, DC, Despatch Agency	8631
		European Logistics Support Office	8633
		Baltimore, MD, Despatch Agency	8634
		Miami, FL, Despatch Agency	8635
		New York, NY, Despatch Agency	8636
		Warehouse Frankfurt, Germany	8637
		Seattle, WA, Despatch Agency	8638
		Brownsville, TX, Logistics Center	8639
		Secure Logistics	8670
		Hagerstown, MD, Warehouse	8725
	Global Publishing Solutions	Copier Program	8611
		Global Publishing Solutions	8614
		Government Publishing Office Liaison	8615
		Global Publishing Solutions Vienna, Austria	8723
		Global Publishing Solutions Manila, Philippines	8724
		Global Publishing Solutions Cairo, Egypt	8729
	IT Services	OpenNet Everywhere	8616
		Telephones and Wireless Services	8651
	Library	Library Services (Books, Subscriptions, Periodicals)	8671
	Office of Foreign Missions*	Office of Foreign Missions	8710
	Operations	Fleet Management	8641
		Special Support Services (Labor, Lock, and Cable)	8660
		Commissary and Recreation Affairs	8672
	Procurement Shared Services	Overseas Procurements	8650
		Federal Assistance Administrative Support	8673
		Vetting Program	8674
		Regional Procurement Support Office Frankfurt, Germany	8721
		Regional Procurement Support Office Ft. Lauderdale, FL	8726
		Acquisitions	8728
19X4519.4	Post Assignment Travel	International/Post Assignment Travel	2025
		Travel and Transportation	2069
19X4519.5	Office of Medical Services	Office of Medical Services	6025

Fund Symbol	Service Center	Cost Center	Allotment Code
19X4519.6	IT Desktop	IT Consolidation	8730
19X4519.7	Aviation	Aviation Cost Center, Iraq	8731
		Other Aviation Operations	8732
		Aviation Cost Center, Afghanistan	8733
19X4519.8	Office of Foreign Missions*	Foreign Missions Center	8711
19X4519.9	Special Issuance Passports	Passport Services	1044

* Although only one service center is named "Office of Foreign Missions," it has two cost centers under two different funds. Therefore, the service center is included twice in this table to clarify and align the fund symbols and allotment codes associated with the service center.

Source: Generated by OIG from data provided by the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division, the FAH and Bureau of the Comptroller and Global Financial Services data.

The Bureau of Administration, Office of the Executive Director, Working Capital Fund Division (A/EX/WCF), oversaw 9[16] of the 13 WCF service centers in place during FY 2017, which included 33 cost centers. According to an internal A/EX/WCF document,[17] A/EX/WCF is responsible for the overall profit and loss of each cost center; it also ensures that cost centers operate consistently with WCF regulations. Day-to-day operations, including financial performance of each cost center, are the responsibility of the individual cost center managers, who are not part of A/EX/WCF; rather, each cost center is located organizationally in the office or bureau that provides operational guidance to the cost center manager. For example, the Aviation service center includes three cost centers that are managed by a single cost center manager, who is located in the Bureau of International Narcotics and Law Enforcement Affairs.

From FY 2015 to FY 2017, revenue for the nine service centers managed by A/EX/WCF totaled approximately $3 billion, as shown in Table 2.

[16] The other four service centers are: the Office of Medical Services, which is managed by the Bureau of Medical Services; the Office of Foreign Missions, which is managed by that office; Post Assignment Travel, which is managed by the Bureau of Human Resources; and Special Issuance Agency, which is managed by the Bureau of Consular Affairs.

[17] "Cost Center and A/EX/WCF Roles in the WCF," March 2013.

Table 2: Annual Service Center Revenue From FY 2015 to FY 2017

Service Center	FY 2015	FY 2016	FY 2017	Total
Global Publishing Solutions	$32,987,698	$29,794,299	$24,225,060	$87,007,057
Freight Forwarding	$307,996,994	$284,643,061	$297,929,643	$890,569,698
IT Services	$120,790,095	$130,486,597	$124,423,581	$375,700,273
Operations	$15,261,865	$16,293,718	$14,682,958	$46,238,541
Procurement Shared Services	$126,994,312	$128,791,070	$173,521,231	$429,306,613
Library	$3,100,302	$3,296,732	$3,101,764	$9,498,798
Admin Expense	$2,682,307	$2,604,711	$2,795,710	$8,082,728
IT Desktop	$55,808,867	$61,712,292	$62,342,331	$179,863,490
Aviation	$387,079,414	$328,899,357	$282,762,794	$998,741,565
Total	**$1,052,701,854**	**$986,521,837**	**$985,785,072**	**$3,025,008,763**

Source: Generated by OIG using financial data provided by A/EX/WCF.

The Bureau of Budget and Planning (BP) serves as the central coordinator for the Department's WCF budget submissions to the Office of Management and Budget (OMB) and Congress. In addition, BP is responsible for the overall funds control of each WCF allotment (that is, cost center). Specifically, BP provides the allotment authority to A/EX/WCF to allocate and execute—that is, distribute—funds to cost centers managed by A/EX/WCF. A/EX/WCF, in coordination with BP, performs budget formulation and execution for the cost centers.[18] A/EX/WCF combines the information from all cost centers and presents it to BP, which, in turn, submits that information to OMB.

AUDIT RESULTS

Finding A: The Bureau of Administration Could Not Demonstrate Whether Excess Earnings in the Working Capital Fund Should Be Transferred to Treasury

OIG found that the Bureau of Administration could not demonstrate that it annually determined whether excess earnings exist in its WCF accounts,[19] and the Department has not transferred any excess earnings to Treasury. Specifically, as of December 2017, A/EX/WCF officials have provided no documentation that it determined if excess earnings exist within any of the nine service centers that A/EX/WCF manages, nor has the Department transferred any excess earnings to

[18] As reported in the Audit Results section, OIG found that, in practice, A/EX/WCF and BP manage WCF financial results at the service center level rather than the cost center level.

[19] During an April 23, 2018, meeting to discuss the results of the audit, A/EX/WCF officials stated that they determine whether excess earnings exist in WCF accounts several times a year. However, although requested during the audit and at the April meeting, A/EX/WCF officials have been unable to provide documentation showing that A/EX/WCF actually made excess WCF determinations.

Treasury. Federal law, however, has required the Secretary to determine and return excess WCF earnings to Treasury since 1963.[20]

This occurred, in part, because the Department has not established adequate policies and procedures to implement the statutory requirement to evaluate and remit excess earnings to Treasury. Specifically, OIG found that A/EX/WCF did not have policies and procedures to annually determine the appropriate carry forward fund amounts for WCF cost centers or the amount in excess earnings to transfer to Treasury. As the Department bureau responsible for the oversight of the nine WCF service centers, A/EX/WCF should have established appropriate policies and procedures to meet the requirements of all laws and regulations pertaining to WCF. As a result, OIG is unable to independently determine the extent to which excess earnings should have been transferred to Treasury from FY 2015 to FY 2017. Moreover, until A/EX/WCF establishes the means to determine excess earnings and implement the WCF transfer requirement, the Department will remain unable to advance a primary purpose of the WCF—to provide an effective means for controlling the costs of goods and services and encourage cost consciousness and efficiency for users and suppliers of services.

The Bureau of Administration Could Not Demonstrate Whether Excess Earnings Existed in the Working Capital Fund

Federal law requires that at the close of each fiscal year, WCF earnings that the Secretary determines to be in excess of the WCF's needs should be transferred to Treasury.[21] However, OIG found that A/EX/WCF has not implemented procedures to annually determine whether excess earnings exist in the WCF and should be considered for remittance to Treasury. Specifically, as of December 2017, A/EX/WCF could not demonstrate that it had performed[22] procedures to identify excess earnings from FY 2015 to FY 2017 in the nine WCF accounts that it manages, and no excess earnings have been transferred to Treasury.

A/EX/WCF officials told OIG that they review the amount of WCF funds carried forward to the next fiscal year during the annual cost center reviews. However, A/EX/WCF officials could not demonstrate that sufficient procedures were performed to determine whether the carry forward fund amounts were needed to sustain operations or capital assets. Although Department officials identified some actions they took to review WCF funds, the officials could not provide documentation demonstrating they had taken sufficient action to identify excess funds that should be remitted to Treasury. For example, one action related to a Memorandum of Understanding that the Bureaus of Administration and Information Resource Management

[20] Public Law 88-205, § 405.

[21] 22 U.S. Code § 2684 (a).

[22] On April 23, 2018, at a meeting to discuss the results of the audit, A/EX/WCF officials stated that they determine whether excess earnings exist in WCF accounts several times a year. However, A/EX/WCF officials have been unable to provide documentation showing that excess WCF determinations were made.

signed in October 2016,[23] which includes instructions to consider capital expenditures when setting fees. Although considering capital expenditures is a key component to setting fees, it is a different concept than reviewing excess funds. Furthermore, other cost centers that are not part of the agreement have no such instructions.

As of the end of FY 2017, the total amount of carry forward funds for the nine service centers managed by A/EX/WCF was almost $166.4 million, which was approximately 17 percent of the total amount of revenue collected by these service centers during FY 2017 (see Table 2 for information on revenue). For FY 2017, the individual service center carry forward values ranged from 5 percent to 57 percent of the service center's revenue. Table 3 shows the Department's carry forward fund amounts and the percentage of those carry forward amounts when compared to revenue by selected service center from FY 2015 to FY 2017.

Table 3: Carry Forward Fund Amounts as a Percentage of Revenue by Service Center From FY 2015 to FY 2017

Service Center	FY 2015 Amount (Percentage)	FY 2016 Amount (Percentage)	FY 2017 Amount (Percentage)
Global Publishing Solutions	$12,410,818 (38)	$12,886,941 (43)	$13,887,929 (57)
Freight Forwarding	$14,605,924 (5)	$14,438,323 (5)	$13,514,441(5)
IT Services	$27,570,276 (23)	$30,491,931 (23)	$26,879,679 (22)
Operations	$2,310,845 (15)	$3,170,894 (19)	$3,310,439 (23)
Procurement Shared Services	$12,468,416 (10)	$18,145,192 (14)	$52,157,354 (30)
Library	$1,214,544 (39)	$904,476 (27)	$860,582 (28)
Admin Expense	$48,744 (2)	$45,842 (2)	$147,377 (5)
IT Desktop	$8,482,678 (15)	$13,841,108 (22)	$10,094,222 (16)
Aviation	$78,522,708 (20)	$71,592,759 (22)	$45,543,120 (16)
Total	**$157,634,953 (15)**	**$165,517,466 (17)**	**$166,395,143 (17)**

Source: Generated by OIG using data provided by A/EX/WCF.

Policies and Procedures Were Inadequate To Fulfill U.S. Code Requirements

OIG found that A/WCF/EX did not have formal policies and procedures to determine whether excess earnings exist in the nine WCF accounts it managed or whether any of the excess earnings should be remitted to Treasury.[24] Although the Bureau of Administration stated that it had processes in place that could be formally documented, OIG found that the processes were limited and not sufficient. For example, A/WCF/EX had not established targets for carry forward funds. As the Department entity responsible for the oversight of nine WCF service centers, A/EX/WCF officials should have established appropriate policies and procedures to meet the

[23] Department of State October 2016, "Memorandum of Understanding (MOU) the Department of State (DOS) Between Bureau of Information Resource Management (IRM) and Bureau of Administration for Working Capital Fund (WCF) Bureau Roles & Responsibilities."

[24] 22 U.S. Code § 2684 (a).

requirements. In particular, those policies and procedures should provide guidance for establishing carry forward fund amounts for WCF cost centers and should include guidance for maintenance of historical documentation and how to determine and transfer excess earnings to Treasury, as appropriate.

Inadequate Policies To Establish Carry Forward Fund Amounts

According to Federal standards for internal control,[25] management is responsible for designing policies and procedures to fit an entity's circumstances; it should also ensure that those policies and procedures are fully built into the process so that they are an integral part of the entity's operations. A/EX/WCF did not comply with Federal requirements because it had not established appropriate targets for carry forward fund amounts for each of the nine cost centers under its purview. Until A/EX/WCF calculates the appropriate carry forward fund amounts, or targets, needed to sustain operations for each cost center, it will be unable to determine the amount of excess earnings that should be considered for remittance to Treasury.

According to GAO, revolving funds such as the Department's WCF are intended to operate on a break-even basis over the long term.[26] The guidance does not require that the WCF's revenue equal expenses in any given fiscal period. As with any fee that is based on an estimate, a degree of imprecision exists, and it would be reasonable to see fiscal periods in which the amount collected by a cost center exceeded costs or fiscal periods in which the amount collected was less than costs. A cost center also might have valid reasons to maintain excess earnings. Funds can be maintained to cover expected future costs (for example, large capital improvements)[27] or to cover expected revenue deficits in future fiscal years (such as when future costs are expected to increase excessively). In another example, A/EX/WCF and BP officials stated that WCF cost centers needed carry forward funds to operate in the first quarter of the next fiscal year when costs are incurred but earnings have not yet been received. In general, however, over time, the cost center's earnings should be close to break-even.

Therefore, having carry forward funds in a cost center is not necessarily inappropriate. However, neither A/EX/WCF nor BP had developed sufficient policies or procedures to determine the amount of operating funds that a cost center would need to have available at the beginning of the fiscal year (that is, carry forward funds).

As noted, A/EX/WCF does not have adequate policies and procedures. Rather, OIG found a small number of individual documents that provided only limited guidance. According to an internal A/EX/WCF document dated March 2013 that defines roles and responsibilities,[28] when determining a WCF cost center fee, a cost center manager should target revenue collections to

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[25] GAO, *Standards for Internal Control in the Federal Government*, Section 2, "Establishing an Effective Internal Control System," at 7 (GAO-14-704G, September 2014).

[26] GAO-08-978SP, Chapter 12, Section C.5, "Augmentation and Impairment," at 12-128.

[27] GAO-08-978SP, Chapter 12, Section C.6, "Property Management and Utilization," at 12-131.

[28] "Cost Center and A/EX/WCF Roles in the WCF," March 2013.

exceed estimated expenses by a margin of 1 to 3 percent. However, the document does not specify why a specific percentage is needed or how this percentage was determined. Furthermore, neither A/EX/WCF nor BP provided guidance to cost center managers explaining how to consider anticipated future capital improvements when determining fee amounts.

According to another A/EX/WCF policy and procedures document dated May 2014,[29] A/EX/WCF is responsible for reviewing the adequacy of cost center pricing. The A/EX/WCF Division Chief stated that A/EX/WCF officials meet annually with some cost center managers[30] to establish prices for the next fiscal year. The A/EX/WCF Division Chief noted that, during the annual pricing review for most cost centers, A/EX/WCF officials and the cost center managers review the budget established in the prior year, the current year's financial results,[31] and the expected upcoming costs to determine prices and to develop an estimated budget for the next fiscal year. OIG reviewed annual pricing and budget documentation for 26 WCF cost centers from FY 2015 to FY 2017 but did not find documentation demonstrating that future capital improvements had been anticipated when establishing cost center pricing. Furthermore, OIG did not find documentation that target carry forward fund amounts had been considered for any of the 26 cost centers when setting prices for the year.

For example, an A/EX/WCF official stated that the Aviation service center needed carry forward funds because those funds were used to operate the "critical flight safety program."[32] This official further explained that the service center manager needed to ensure funds were available to cover the costs of aircraft maintenance for the program. However, when OIG requested documentation from the Aviation service center to support the particular carry forward fund amounts requested, the manager stated that he had told BP that the cost center needed $100 million to maintain the aircraft but that, in FY 2015, BP officials decided that the service center would only be allowed to carry forward $40 million. When OIG asked BP officials for information regarding the decision on the carry forward fund target for the critical flight safety program, BP officials did not recall making a decision. Moreover, Department officials were unable to provide OIG with documentation relating to the requested or agreed-upon carry forward fund amounts for the Aviation service center, which A/EX/WCF reported as $45.5 million at the end of FY 2017.

Exacerbating this issue, A/EX/WCF and BP officials do not always manage carry forward fund amounts at the cost center level; rather, the officials manage carry forward funds at the service center level, even though this is not how funds are accounted for in the Department's financial system. Service centers are not assigned an attribute in the financial system, which relies on cost center allotment codes. This means that A/EX/WCF and BP officials must aggregate allotment code data to report carry forward funds. In other words, A/EX/WCF and BP officials combine

[29] "WCF Policy and Procedures for Annual Review of Cost Center Pricing," May 2014.

[30] The A/EX/WCF Division Chief told OIG that A/EX/WCF does not meet with all cost center managers to determine pricing because some cost centers are "more straightforward" and that others hold separate briefings with A/EX/WCF and other stakeholders to perform financial reviews.

[31] The cost center's revenues and expenses for the current period.

[32] The program enables airplanes to be maintained for the three cost centers in the Aviation service center.

information on separate cost centers even though those cost centers may have distinct needs. For example, in FY 2017, 2 of 10 freight forwarding cost centers collected 99.97 percent of the revenue for the entire service center. This prevents accurate price calculations at the cost center level, which should include the distinct revenues, expenses, and carry forward amounts for each cost center. Without oversight of carry forward fund amounts at a cost center level, the Department cannot determine whether specific cost centers are operating efficiently and whether appropriate prices had been established for the year.

A/EX/WCF procedures should have established and documented target carry forward fund amounts annually for all cost centers, which would enable the Department to identify excess funds on an annual basis, as required. Identifying target carry forward fund amounts during the annual cost center pricing reviews would also allow A/EX/WCF officials and the respective cost center manager to set appropriate prices that would both account for funds needed to operate in the first quarter of the fiscal year and include projected future capital improvements. For those cost centers in which no annual pricing reviews occurred, the Department should develop and implement a process to determine and document target carry forward fund amounts.

Lack of Procedures To Maintain Historical Documentation

According to Federal standards for internal control,[33] management should clearly document all transactions and other significant events and maintain that documentation in a manner that makes it readily available for examination. Although OIG found that A/EX/WCF, in conjunction with cost center managers, established prices for WCF goods and services annually, A/EX/WCF did not maintain historical documentation for these decisions. For example, the A/EX/WCF Division Chief stated that A/EX/WCF maintained a website that contained only the current fiscal year pricing list for all WCF services. The A/EX/WCF Division Chief further stated that once the new fiscal year begins, all prices from the prior year are deleted and new prices are entered. A/EX/WCF therefore could not provide historical WCF prices when requested by OIG. In addition, the A/EX/WCF Division Chief expressed his belief that some cost center managers did not maintain prior pricing information because of staff turnover at the cost center manager level. However, the Department's *Domestic Records Disposition Schedules*[34] requires that all financial transaction records, which include records for recovering costs of providing WCF services, be kept for 6 years after final payment or cancelation. Finally, A/EX/WCF did not have procedures to maintain documentation of agreed-upon target carry forward fund amounts. Without procedures for maintaining historical prices and carry forward funds determinations for WCF goods and services, A/EX/WCF cannot effectively make informed decisions about future pricing at the cost centers or identify excess earnings that should be remitted to Treasury.

Lack of Policies and Procedures To Determine and Transfer Excess Earnings

Excess working capital funds were also not transferred to Treasury because the Department did not have policies or procedures to determine and transfer excess earnings. Specifically, the

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[33] GAO-14-704G, 10.03, "Design of Appropriate Types of Control Activities," at 48.

[34] Department of State, Bureau of Administration, *Domestic Records Disposition Schedules,* Section A-03-001-02.

Department did not establish procedures explaining how A/EX/WCF would coordinate with BP to calculate excess earnings and then transfer those funds as miscellaneous receipts to Treasury. The BP Deputy Director told OIG that the WCF prices are established to break even and that the WCF has never reached the point at which it has "excess funds" to return to Treasury.[35] Furthermore, the BP Deputy Director insisted to OIG that, because prices are set each year, the WCF breaks even each year. However, OIG received no supporting documentation or analyses for these assertions. In addition, OIG found significant carry forward fund amounts in the WCF for service centers managed by A/EX/WCF ($157.6 million, $165.5 million, and $166.4 million for FY 2015, FY 2016, and FY 2017, respectively), which calls into question the BP Deputy Director's assertion that the WCF service centers break even each year. Without effective policies and procedures to determine and transfer excess earnings to Treasury, the Department will remain unable to fulfill its obligations under Federal law.[36]

The Purpose of the Working Capital Fund Is Not Being Fully Realized

A/EX/WCF has not established policies and procedures to determine excess earnings and fulfill the WCF transfer requirement or implemented procedures to maintain historical documentation relating to the requirement. Accordingly, OIG cannot independently determine the extent to which excess earnings should have been transferred to Treasury from FY 2015 to FY 2017. In addition, A/EX/WCF and BP's practice of reporting carry forward fund amounts only at the service center level may discourage some cost centers from operating on a break-even basis. For example in May 2013, OIG reported[37] that at least $26 million of procurement-related fees (that is, the Procurement Shared Services service center) were used to subsidize other WCF service or cost centers within the Bureau of Administration that operated at a loss. Furthermore, because it has not established appropriate carry forward fund amounts or targets during the annual pricing review process, the Department is not managing the WCF on a break-even basis over the long term, as required. OIG's work has already noted instances of this concern. For example, in September 2013, OIG reported[38] that the IT Consolidation[39] cost center collected fees in excess of the amount needed to cover the costs required to sustain its operations by approximately $26 million between FY 2009 and FY 2012. In March 2016, OIG reported[40] that the Telephone, Wireless, and Data cost center[41] collected fees in excess of the amount needed to cover the costs to sustain its operations by more than $25 million between FY 2010 and FY 2014. Until A/EX/WCF establishes the means to determine excess earnings and implement the WCF transfer

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[35] In a response to a draft of this report, the Bureau of Administration agreed with BP's assertion, stating that "historically there have been no excess earnings to transfer." The Bureau of Administration did not provide details on how it reached this conclusion in its response.

[36] 22 U.S. Code § 2684 (a).

[37] OIG, *Audit of Department of State Application of the Procurement Fee to Accomplish Key Goals of Procurement Services* (AUD-FM-13-29, May 2013).

[38] OIG, *Audit of Selected Working Capital Fund Cost Center Financial Results* (AUD-FM-13-36, September 2013).

[39] OIG report AUD-FM-13-36 identifies this cost center as the "IT cost center."

[40] AUD-FM-16-32, March 2016.

[41] The Telephone, Wireless, and Data cost center is identified as "Telephones and Wireless Services" in Table 1 of this report.

requirement, the Department will remain unable to advance a primary purpose of the WCF, namely, to provide an effective means for controlling the costs of goods and services and encourage cost consciousness and efficiency for users and suppliers of services.

Recommendation 1: OIG recommends that the Bureau of Administration revise and update policies and procedures for determining appropriate Working Capital Fund fees for each cost center. The updated policies and procedures should include, at a minimum, guidance on how to estimate the amount of funds needed to maintain operations for each cost center, including revenue, expenses, and overhead amounts. The procedures should also include guidance on determining appropriate target carry forward fund amounts for each cost center, estimated costs of capital improvements, instructions on documenting and retaining analyses and calculations, and documentation for establishing a reasonable maximum threshold for carry forward balances for each cost center.

Management Response: The Bureau of Administration concurred with the recommendation. However, it stated that "While it is accurate that [current] processes and annual procedures need to be more formally documented, we believe that many of these processes could have been corroborated through expanded interviews with [A/EX/WCF] service center customers." The Bureau of Administration also stated that it had "procedures, processes and management controls in place to assess the adequacy of pricing and carryforward balances," but agreed that the procedures and processes should be "formally documented."

OIG Reply: Although the Bureau of Administration stated that it concurred with the recommendation, its extended comments imply that it does not intend to fully implement the recommendation. Therefore, OIG considers this recommendation unresolved. For example, the recommendation states that the current policies and procedures should be "revised and updated" to address the deficiencies OIG identified. Although the Bureau of Administration's response indicates that it plans to formalize its current procedures, it does not explicitly acknowledge their inadequacy. As noted in the Audit Results section of this report, OIG found that the Bureau of Administration's processes were insufficient to determine the appropriate WCF fees for each cost center. Therefore, formalizing insufficient procedures does not fulfill the intent of the recommendation or provide an effective means for controlling the costs of goods and services.

This recommendation will be considered resolved when the Bureau of Administration provides an action plan to implement the recommendation as stated or provides an acceptable alternative that fulfills its intent. This recommendation will be closed when OIG receives and accepts documentation demonstrating that policies and procedures for determining appropriate WCF fees for each cost center have been updated and include, at a minimum, guidance on how to estimate the amount of funds needed to maintain operations for each cost center, including revenue, expenses, and overhead amounts.

Recommendation 2: OIG recommends that the Bureau of Administration develop and implement a policy for maintaining historical documentation of fees charged for goods and services of the Working Capital Fund and carry forward fund amount determinations. The policy, at a minimum, should include keeping a documented list of previous fees and carry forward fund amounts and the basis by which they were determined, as required by the Government Accountability Office's *Standards for Internal Control in the Federal Government* and the Department of State Domestic Records Disposition Schedule.

Management Response: The Bureau of Administration concurred with this recommendation.

OIG Reply: On the basis of the Bureau of Administration's concurrence with the recommendation, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration has implemented a policy for maintaining historical documentation of fees charged for goods and services of the WCF and carry forward fund amount determinations.

Recommendation 3: OIG recommends that the Bureau of Budget and Planning develop and implement procedures for determining excess earnings within the Working Capital Fund on an annual basis, as required by 22 U.S. Code § 2684. The procedures, at a minimum, should include a methodology to determine the amount of excess earnings in the Working Capital Fund, a process to communicate the determination to the Secretary of State, and the manner in which excess earnings will be remitted to the U.S. Department of the Treasury when determined to be in excess to the needs of the fund.

Management Response: BP concurred with this recommendation, stating that it will develop, in coordination with the WCF service centers, a policy for the carry forward balances of unobligated funds at the end of the fiscal year that will address the review of such balances, their allocations in the following fiscal year, and the identification of any excess funding for which no bona fide need to remit as miscellaneous receipts to the general fund of the Treasury exists.

OIG Reply: On the basis of BP's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that BP has implemented procedures for determining excess earnings within the WCF on an annual basis.

Recommendation 4: OIG recommends that the Bureau of Administration, as part of its annual review of the Working Capital Fund cost centers and in coordination with the Bureau of Budget and Planning, determine the amount of excess earnings in the Working Capital Fund for FY 2018, report the results to OIG, and remit the identified excess to the U.S. Department of the Treasury, as required by 22 U.S. Code § 2684.

Management Response: The Bureau of Administration concurred with this recommendation.

OIG Reply: On the basis of the Bureau of Administration concurrence, OIG considers this recommendation resolved pending further action. This recommendation will be closed when

OIG receives and accepts documentation demonstrating that the Bureau of Administration, as part of its annual review of the WCF cost centers and in coordination with BP, determined the amount of excess earnings in the WCF for FY 2018, reported the results to OIG, and remitted the identified excess to Treasury, as required.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration revise and update policies and procedures for determining appropriate Working Capital Fund fees for each cost center. The updated policies and procedures should include, at a minimum, guidance on how to estimate the amount of funds needed to maintain operations for each cost center, including revenue, expenses, and overhead amounts. The procedures should also include guidance on determining appropriate target carry forward fund amounts for each cost center, estimated costs of capital improvements, instructions on documenting and retaining analyses and calculations, and documentation for establishing a reasonable maximum threshold for carry forward balances for each cost center.

Recommendation 2: OIG recommends that the Bureau of Administration develop and implement a policy for maintaining historical documentation of fees charged for goods and services of the Working Capital Fund and carry forward fund amount determinations. The policy, at a minimum, should include keeping a documented list of previous fees and carry forward fund amounts and the basis by which they were determined, as required by the Government Accountability Office's *Standards for Internal Control in the Federal Government* and the Department of State Domestic Records Disposition Schedule.

Recommendation 3: OIG recommends that the Bureau of Budget and Planning develop and implement procedures for determining excess earnings within the Working Capital Fund on an annual basis, as required by 22 U.S. Code § 2684. The procedures, at a minimum, should include a methodology to determine the amount of excess earnings in the Working Capital Fund, a process to communicate the determination to the Secretary of State, and the manner in which excess earnings will be remitted to the U.S. Department of the Treasury when determined to be in excess to the needs of the fund.

Recommendation 4: OIG recommends that the Bureau of Administration, as part of its annual review of the Working Capital Fund cost centers and in coordination with the Bureau of Budget and Planning, determine the amount of excess earnings in the Working Capital Fund for FY 2018, report the results to OIG, and remit the identified excess to the U.S. Department of the Treasury, as required by 22 U.S. Code § 2684.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) transferred excess working capital funds to the Department of the Treasury (Treasury) annually, as prescribed by the Foreign Assistance Act of 1963,[1] codified at 22 U.S. Code § 2684.[2]

The Office of Audits conducted fieldwork for this performance audit from October to December 2017. The scope period of the audit was FY 2015 through FY 2017. For purposes of this audit, OIG reviewed the nine service centers managed by the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division (A/EX/WCF).[3] Audit work was performed in the Washington, DC, metropolitan area. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

To obtain background information, including criteria, OIG researched and reviewed Federal laws and regulations as well as policies relating to the Department's Working Capital Fund (WCF), such as the Foreign Affairs Handbook, U.S. Code, *Principles of Federal Appropriations Law*,[4] Federal standards for internal control,[5] prior OIG and Government Accountability Office (GAO) reports, and information available on the Department's intranet.

To draw conclusions regarding the Department's procedures and actions taken regarding excess funds in the WCF, OIG met with A/EX/WCF officials to gain an understanding of A/EX/WCF's operations, including services provided to customers, financial information used, and the office's role in transferring excess funds to Treasury. OIG also met with officials from the Bureau of Budget and Planning to gain an understanding of their role in determining carry forward fund amounts and transferring excess funds to Treasury. Furthermore, OIG held a teleconference with officials from the Bureau of International Narcotics and Law Enforcement Affairs to discuss carry forward fund amounts in the WCF's Aviation service center. In addition, OIG reviewed budget documentation, cost pricing memoranda, and internal A/EX/WCF procedures. As reported in the Audit Results section of this report, the Department did not have documentation to support the identification and transfer of excess working capital funds. As also reported, the Department did not have procedures related to the review and transfer of excess funds to Treasury. Because of flaws in the WCF price determination process, as reported in Finding A, OIG was unable to

[1] Foreign Assistance Act of 1963, Public Law 88-205, December 16, 1963.

[2] 22 U.S. Code § 2684, "Capital Fund for Department of State."

[3] The WCF had a total of 13 service centers in FY 2017; see the Background section for additional details.

[4] Government Accountability Office (GAO), *Principles of Federal Appropriations Law,* 3rd ed., Vol. III (GAO-08-978SP, September 2008).

[5] GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

determine the extent to which excess earnings should have been transferred to Treasury from FY 2015 to FY 2017.

Prior OIG Reports

In FY 2013 and FY 2016, OIG reported several issues with A/EX/WCF service centers and cost centers. Specifically, in FY 2013,[6] OIG identified a cost center that collected fees in excess of the amount needed to cover the costs to sustain operations and a separate cost center that had not collected sufficient fees to cover its costs. In a second FY 2013 audit report,[7] OIG identified a service center that had operated at a profit and that had used the fees collected to subsidize other WCF service or cost centers that operated at a loss. In addition, the Department had not reassessed the fee established for the service center since it was first implemented. In an FY 2016 audit report,[8] OIG reported that a cost center collected fees in excess of the amount needed to cover the costs to sustain its operations by more than $25 million.

Work Related to Internal Controls

To assess the adequacy of internal controls related to policies, procedures, and processes related to the audit objective, OIG reviewed existing policies and procedures to determine whether the Department implemented controls to identify and transfer excess working capital funds to Treasury. In addition, OIG reviewed the Foreign Affairs Handbook, U.S. Code, and Federal standards for internal control. OIG also interviewed A/EX/WCF, Bureau of Budget and Planning, and Bureau of International Narcotics and Law Enforcement Affairs officials responsible for the oversight of the WCF and the Aviation service center. OIG reviewed A/EX/WCF documents related to the WCF process to understand the internal controls in place during annual cost center pricing reviews and oversight of carry forward fund amounts. Issues identified during the audit relating to internal controls are detailed in the Audit Results section of this report.

Use of Computer-Processed Data

OIG initiated the steps to gather computer-processed data for this audit. OIG obtained electronic status reports for FYs 2015, 2016, and 2017, which included the carry forward amounts. However, as noted in the report, A/EX/WCF currently does not report—nor does the data have appropriate attributes to compute—carry forward fund amounts at the cost center level. Given this finding, OIG determined the data to be of undetermined reliability. Therefore, the audit team did not use computer-processed data for evidence for this audit.

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[6] OIG, *Audit of Selected Working Capital Fund Cost Center Financial Results* (AUD-FM-13-36, September 2013).

[7] OIG, *Audit of Department of State Application of the Procurement Fee to Accomplish Key Goals of Procurement Services* (AUD-FM-13-29, May 2013).

[8] OIG, *Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center* (AUD-FM-16-32, March 2016).

APPENDIX B: BUREAU OF ADMINISTRATION RESPONSE

United States Department of State

Washington, D.C. 20520

May 15, 2018

UNCLASSIFIED

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/EX – Janice L. deGarmo

SUBJECT: Draft Report – *Audit of the Department of State's Process to Identify and Transfer Excess Working Capital Funds.* (AUD-FM-18-XX)

Thank you for the opportunity to provide our comments on the subject draft OIG audit report.

The Bureau of Administration (A) concurs with the three recommendations (1, 2, and 4) requiring A Bureau action.

As discussed in the 4/23/2018 exit conference, the Bureau of Administration's Executive Office, A/EX does have concerns that information regarding current processes and procedures shared with OIG during staff interviews would, if included in the report, have more accurately reflected the daily, monthly, quarterly and annual procedures currently being followed by the Working Captial Fund (WCF) team. While it is accurate that these processes and annual procedures need to be more formally documented, we believe that many of these processes could have been corroborated through expanded interviews with WCF service center customers.

The draft report also concludes the Department is unable to advance a primary purpose of the WCF (namely, to provide an effective means for controlling the costs of goods and services and encourage cost consciousness and efficiency for users and suppliers of services) because the A Bureau has not determined excess earnings and returned any balances to Treasury. The A Bureau believes that the Department has made determinations on excess earnings because the resulting Department of State carryforward is reported annually to OMB and Congress. While we agree these determinations should be better documented, we maintain it is inaccurate to state the amounts have not been determined.

Lastly, we disagree with the statement in the document that the A/EX/WCF Division Chief initially told OIG that he was not aware of the requirement to return excess carryforward to Treasury. The Division Chief and WCF employees have in fact demonstrated their familiarity with the code when they provided the Audit team with a formal document authored by A/EX/WCF that specifically references this code. The document was authored in December 2016 – prior to the start of the audit engagement. A/EX/WCF respectfully requests that this statement be removed from the report.

UNCLASSIFIED

The following are specific comments:

Page 1 – Objective

Objective implies that the OIG was assessing the entire Department of State Working Capital Fund, when in fact OIG specifically focused on the WCF's managed by the A Bureau – 19X45190000, 19X45190006, and 19X45190007. These allotment codes represent less than 70 percent of the Department's non-ICASS WCF programs.

Page 1 – 2nd paragraph

As stated above, we do not concur and respectfully request that it be removed.

Page 6 – 1st Paragraph, last sentence

The Bureau of Administration submits a comprehensive annual budget to BP by cost center that is well documented. This document demonstrates the Bureau's efforts to ensure each cost center is fully recovering the cost of its services and pricing them in a manner to reach a break-even position. A/EX/WCF provided OIG with examples where prices from the Copier Leasing program were reduced in consecutive years in an effort to reach break-even and not overcharge customers. In addition, the OIG was provided copies of cost studies performed by 3rd party consultants and internal costs analysis completed for the Fleet Management and the Labor/Lock cost centers.

Page 6 – middle paragraph under heading *"The Bureau of Administration Could Not………"*

As mentioned previously, the Bureau of Administration has procedures, processes and management controls to accurately determine prices and monitor the appropriateness of carryforward balances. We respectfully request the word "procedures" be amended to read "could not document."

A/EX/WCF and counterparts in BP explained to OIG during interviews that the Department's historical position on carry forward is that there has been no excess; therefore, funds have not been remitted to the Treasury. Carryforward amounts are reported to OMB and Congress annually.

Page 7 – top paragraph

As mentioned previously, procedures and processes are in place and executed on a regular basis. Carry forward balances were most recently documented in the December 2016 Memorandum of Understanding (MOU) between A and IRM.

Page seven – middle paragraph

Recommend a foot note explaining context for carry forward numbers in the table. Each year there has been approximately $1 billion of revenue received through the WCF. The table represents the resulting carry forward balance of approximately 16% for cost centers managed by A/EX.

Page 7 – Last paragraph

As noted previously, the A Bureau maintains that we have procedures, processes and management controls in place to assess the adequacy of pricing and carryforward balances, but agree they should be formally documented.

Page 8 – 1st paragraph

As discussed with the OIG during the survey and audit phases, the Bureau of Administration has procedures, policies and management controls for reviewing the adequacy of pricing and carryforward balances. A/EX/WCF works very closely with all cost center managers and discusses the appropriateness of carryforward balances. While we disagree with the OIG's noted conclusion, the Bureau of Administration agrees that the processes, procedures and management controls that were explained to the OIG could and should be more formally documented.

Page 8 – 3rd paragraph

For the scope of the audit and several prior years the Bureau of Administration has had a standard practice of formally requesting and receiving from BP, its entire carryforward balance in the 1st quarter. It has always been agreed between BP, A/EX/WCF and customer/program offices that there is no excess to return to Treasury. The carryforward balance has provided the Bureau of Administration with enough budgetary allotment authority to allow the cost centers to meet the Departments requests for services during the 1st quarter. The Bureau of Administration agrees that these procedures can and should be formally documented.

Page 9 – 1st paragraph

On 11/14/2017, the Bureau of Administration provided the OIG with copies of its pricing memos that were signed by the costs centers and the Bureau of Administration that supported the budget submitted to BP in July 2017. These memos specifically addressed how the carryforward balances of the AQM, TWD and Desktop Support Cost Centers were being used in 2017 and plans for how the balances would be used in future years. We therefore request the last two sentences of this paragraph be removed as they are incorrect.

Page 10 – last paragraph

Disagree with first sentence. The reason excess earnings were not transferred to Treasury is because historically there have been no excess earnings to transfer. The Bureau of Administration acknowledges that this can and should be documented in a formal policy.

Page 11- first paragraph

Annual budget amounts need to be shown with the carryforward amounts in order to give proper perspective. $166 million on a $1 billion program is a little over 16%.

APPENDIX C: BUREAU OF BUDGET AND PLANNING RESPONSE

United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

May xx, 2018

MEMORANDUM

TO: OIG – Steve Linick

FROM: BP – Douglas Pitkin DP

SUBJECT: Bureau Response: OIG Audit Report, 'Department of State's Process to Identify and Transfer Excess Working Capital Funds' (AUD-FM-18-XX)

Recommendation # 3: OIG recommends that the Bureau of Budget and Planning develop and implement procedures for determining excess earnings within the Working Capital Fund on an annual basis, as required by 22 U.S. Code § 2684. The procedures, at a minimum, should include a methodology to determine the amount of excess earnings in the Working Capital Fund, a process to communicate the determination to the Secretary of State, and the manner in which excess earnings will be remitted to the U.S. Department of the Treasury when determined to be in excess to the needs of the fund.

BP Response: Agree.

BP will develop, in coordination with the Working Capital Fund Service Centers, a policy for carryforward balances of unobligated funds at the end of the fiscal year. This policy will address the review of such balances, their allocations in the following fiscal year, and the identification of any excess funding for which there is not a bona fide need to remit as miscellaneous receipts to the general fund of the U.S. Treasury.

The following are specific comments on the draft report:

Page 9 - 2nd paragraph: Aviation Service Center

Proposed that 4th sentence on carry forward target for the critical flight safety program is replaced with:

"When OIG asked BP officials for information regarding the policy on the carry forward fund target, BP officials noted that a policy existed but was not documented. However, BP advised that carryforward balances were frequently reviewed with service center managers in an effort to monitor demand relative to cost recovery, as well as the potential for "excess funds." Department officials were unable to provide OIG with documentation of communications relating to the requested or agreed-upon carry forward fund amounts for the Aviation service center, which A/EX/WCF reported as $45.5 million at the end of FY 2017."

Page 5 – footnote 18: Clarification.

The FY 2017 Congressional Budget Justification reports budgets and tables by both Service Centers and Cost Centers.

Drafted: Curt Wahl ext. 7-6649

Cleared:

BP: JZakrajsek (OK)
BP: ALewis (OK)
M:

APPENDIX D: OIG REPLIES TO THE BUREAU OF ADMINISTRATION GENERAL COMMENTS

In addition to concurring with the Office of Inspector General (OIG) recommendations, the Bureau of Administration provided general comments in response to the draft of this report (the Bureau of Administration's comments are reprinted in Appendix B). Some of the responses from the Bureau of Administration were repetitive. Therefore, rather than responding to each point raised by the Bureau of Administration, OIG combined and summarized similar comments. Summaries of the Bureau of Administration's general comments and OIG's replies are presented below.

Bureau of Administration Comment: The Bureau of Administration stated that OIG did not include information on the processes and procedures that the bureau provided to OIG during the audit in the report. According to the Bureau of Administration, the information was shared with OIG during interviews with the staff.

OIG Reply: OIG met with officials from the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division (A/EX/WCF) multiple times during the audit and repeatedly asked for copies of policies and procedures related to efforts that A/EX/WCF took to assess excess funds annually. As reported in Finding A, even the few A/EX/WCF procedures that were documented were not always followed. For example, OIG was told that excess funds were considered during annual meetings that A/EX/WCF had with officials from each cost center. However, the A/EX/WCF Division Chief told OIG that A/EX/WCF does not actually meet with all cost center managers annually to determine pricing because some cost centers are "more straightforward" and that others hold separate briefings with A/EX/WCF and other stakeholders to perform financial reviews. Ultimately, A/EX/WCF could not provide formal or informal processes that it used consistently to annually assess excess funds for the WCF cost centers. OIG did not make any changes in response to this comment.

Bureau of Administration Comment: In several locations in its response, the Bureau of Administration disagreed with OIG's finding and stated that the Bureau of Administration has "procedures, processes and management controls in place to assess the adequacy of pricing and carryforward balances," although the Bureau of Administration agreed that these procedures and processes had not been formally documented.

OIG Reply: As detailed in the Audit Results section of the report, during the audit, OIG was unable to obtain evidence from A/EX/WCF officials, or officials in several service centers reviewed, that the Bureau of Administration had sufficient processes or procedures in place to assess carry forward funds to determine if they were in excess of needs. A/EX/WCF officials stated that they review the amount of WCF funds carried forward to the next fiscal year during the annual cost center reviews. In fact, A/EX/WCF stated that it did not hold annual cost center reviews with all cost centers. A/EX/WCF could not provide support for statements it made and could not provide evidence that changes were made to fees on the basis of a consideration of carry forward amounts. OIG did not make any changes in response to the comment.

Bureau of Administration Comment: In several sections of its response, the Bureau of Administration stated that carry forward amounts are reported to the Office of Management and Budget (OMB) and Congress annually, implying that this type of reporting was sufficient to comply with Federal requirements related to returning excess funds to Treasury and to demonstrate that it had assessed excess earnings.

OIG Reply: Neither OMB nor Congress would have sufficient information available, without obtaining additional information from the Department, to determine whether the carry forward amounts reported in annual reports were excessive or not. Therefore, this type of annual reporting alone does not comply with Federal requirements. Furthermore, reporting an amount in a required annual report does not demonstrate that the Bureau of Administration performed any analyses to determine whether those funds were truly required to continue operations. OIG did not make any changes in response to the comment.

Bureau of Administration Comment: The Bureau of Administration disagreed with the draft report's statement that the "the A/EX/WCF Division Chief initially told OIG that he was not aware of the requirement to return excess carryforward to Treasury." The Bureau of Administration requested that this statement be removed from the report.

OIG Reply: OIG's written notes from the interview with the Division Chief affirm this is what he said. Nevertheless, it is possible that the Division Chief misspoke during the interview and because this statement has no impact on the findings presented in this report, OIG removed the statement from the Audit Results section of this report.

Bureau of Administration Comment: The Bureau of Administration suggested that the objective be clarified to indicate that OIG only assessed WCF service centers management by the Bureau of Administration.

OIG Reply: The scope of an audit is not typically included in the objective of an audit, so OIG added clarifying language in the Purpose, Scope, and Methodology section of this report (Appendix A) to further explain the scope of the audit and address this comment.

Bureau of Administration Comment: The Bureau of Administration stated that it did not concur with the second paragraph on page 1 of the report and asked that it be removed.

OIG Reply: The second paragraph on page 1 of the report provides a general description of a revolving fund. The information is from the Government Accountability Office's *Principles of Federal Appropriations Law*. OIG is unsure why the Bureau of Administration would object to a standard definition of a revolving fund. OIG did not make any changes in response to this comment.

Bureau of Administration Comment: According to the Bureau of Administration, it "submits a comprehensive annual budget to BP by cost center that is well documented. This document demonstrates the bureau's efforts to ensure each cost center is fully recovering the cost of its services and pricing them in a manner to reach a break-even position. A/EX/WCF provided OIG with examples where prices from the Copier Leasing program were reduced in consecutive years in an effort to reach break-even and not overcharge customers. In addition, the OIG was provided copies of cost studies performed by 3rd party consultants and internal costs analysis completed for the Fleet Management and the Labor/Lock cost centers."

OIG Reply: OIG is aware that A/EX/WCF submits an annual budget to BP by cost center. Furthermore, OIG acknowledges that the Copier Leasing program fees were reduced. However, OIG notes that despite the efforts to achieve break-even for the Copier Leasing Program, the Global Publishing Solutions service center ended FY 2017 with a carry forward amount that was 57 percent of its earned revenue, as shown in the Audit Results section of this report, specifically Table 3. In addition, OIG previously identified issues with how WCF cost centers are setting fees.[1] This report continues to identify significant excess funds that are not being sufficiently assessed by the Bureau of Administration. OIG did not make any changes to the report in response to this comment.

Bureau of Administration Comment: In several locations in its response to a draft of this report, the Bureau of Administration indicated that the Department's position on carry forward is that there has been no excess.

OIG Reply: Although A/EX/WCF and BP officials have stated that there has been no excess funds in the WCF, they were unable to demonstrate how they made this determination. Saying that the Department has taken a position on this topic does not demonstrate that A/EX/WCF and BP have appropriately analyzed the financial needs of each cost center to determine excess funds. Many of the cost centers assessed during the audit have carry forward funds annually, but A/EX/WCF and BP provided little information on how they assessed the carry forward amounts other than general statements about reviewing the carry forward amounts during annual reviews. Rolling over funding to the next year is not an evaluation or determination of excess funding. To determine if excess funding exists, the Department must set a target and then evaluate if that target is exceeded. As reported, A/EX/WCF has not established target carryforward amounts for its WCF cost centers. Moreover, the bureau's comments are troubling when considered in relation to the law that established the Department's WCF. Specifically, the Foreign Assistance Act of 1963, codified at 22 U.S. Code § 2684, states that "[t]here shall be transferred into the Treasury as miscellaneous receipts, as of the close of each fiscal year, earnings which the Secretary of State determines to be excess to the needs of the fund."[2] OIG did not make any changes to the report in response to this comment.

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[1] OIG, *Audit of Department of State Application of the Procurement Fee to Accomplish Key Goals of Procurement Services* (AUD-FM-13-29, May 2013). OIG, *Audit of Selected Working Capital Fund Cost Center Financial Results* (AUD-FM-13-36, September 2013). OIG, *Audit of the Financial Results of the Telephone, Wireless, and Data Cost Center* (AUD-FM-16-32, March 2016).

[2] 22 U.S. Code § 2684 (a), "Establishment of fund."

Bureau of Administration Comment: The Bureau of Administration stated that evidence of its procedures and processes was documented in a December 2016 Memorandum of Understanding between the Bureau of Administration and the Bureau of Information Resource Management.

OIG Reply: The Memorandum of Understanding that was signed in October 2016 (not December 2016, as stated in the response) between the Bureau of Administration and the Bureau of Information Resource Management was created in response to another OIG audit report.[3] In that report, OIG recommended that the bureaus develop a formal policy that identifies the roles and responsibilities for WCF fee-setting, which was necessary because the methodology being used by the Bureau of Information Resource Management to set its WCF fees was inadequate and did not assess all carry forward funds. OIG is pleased that the Department took action to address this deficiency for the cost center that OIG audited. However, simply considering carry forward funds during fee-setting at one cost center does not demonstrate that the Bureau of Administration sufficiently assesses carry forward amounts to annually identify excess funds. Nevertheless, OIG added information in the Audit Results section of this report to note that a Memorandum of Understanding between the Bureaus of Administration and Information Resource Management indicated that carry forward funds should be considered when setting fees.

Bureau of Administration Comment: The Bureau of Administration requested that OIG include information in the report comparing the total revenue related to the WCF service centers reviewed and the carry forward amounts. The Bureau of Administration wanted to provide context for the carry forward numbers.

OIG Reply: As requested, OIG updated the Audit Results section of the report to include information on the percentage of revenue that was carried forward for the cost centers included in the audit for the 3 years considered.

Bureau of Administration Comment: According to the Bureau of Administration, "A/EX/WCF works very closely with all cost center managers and discusses the appropriateness of carryforward balances."

OIG Reply: Although A/EX/WCF stated that it works closely with all cost center managers to consider carry forward balances, as reported in the Audit Results section of the report, A/EX/WCF was unable to support its statements with documentation. In fact, A/EX/WCF officials indicated that it did not always hold the annual meetings with cost centers to assess fees. Furthermore, as reported, A/EX/WCF has not established target carry forward amounts for cost centers. Without a target amount, a determination of excess funds can never be calculated and the Department will never know if it should return funds to Treasury. OIG did not make any changes in response to this comment.

[3] AUD-FM-16-32, March 2016.

Bureau of Administration Comment: The Bureau of Administration stated that "the Bureau of Administration has had a standard practice of formally requesting and receiving from BP, its entire carryforward balance in the [first] quarter. It has always been agreed between BP, A/EX/WCF and customer/program offices that there is no excess to return to Treasury. The carryforward balance has provided the Bureau of Administration with enough budgetary allotment authority to allow the cost centers to meet the Departments requests for services during the [first] quarter."

OIG Reply: OIG does not question the appropriateness of providing carry over funding to cost centers during the first quarter of the fiscal year. As noted, OIG's concern is that neither BP nor A/EX/WCF has established target carry forward amounts nor formalized sufficient policies or procedures for how cost centers should determine target amounts. Without sufficient analyses of the carry forward amounts, it is impossible to know whether the amount provided to the cost centers is reasonable to cover the first quarter's needs or is in excess of those needs. OIG did not make any changes to the report in response to this comment.

Bureau of Administration Comment: According to the Bureau of Administration, A/EX/WCF provided "pricing memos that were signed by the costs centers and the Bureau of Administration that supported the budget submitted to BP in July 2017. These memos specifically addressed how the carryforward balances of the [Acquisitions], [Telephones and Wireless Services] and [IT] Desktop Support Cost Centers were being used in 2017 and plans for how the balances would be used in future years."

OIG Reply: OIG reviewed the price memoranda referred to in the bureau's comments. OIG did not note any information relating to future needs when determining the fees for the next year. For example, the FY 2017 IT Desktop price memorandum concludes that the current charge is correct because "last year's revenue roughly equaled obligations." This is despite the same memorandum noting that "[t]he cost center's carry forward of $13.8 million is nearly 25% of expected revenue, which is much higher than the 10% target that triggers a cost study" and that the cost center "will find a proper one-time use for the carry forward or make a one-time reduction in annual fees to bring the carry forward down to no more than $5 million." This memorandum clearly demonstrates that the procedures employed by A/EX/WCF were not properly accounting for the future carry forward amounts when calculating prices.

In another example, the FY 2017 Telephone and Wireless Services price memorandum notes that as a result of an OIG recommendation a formal fee assessment was conducted and the results of the assessment would be implemented. The results included "issuing a credit to all affected customers during FY2017 to aid in reducing the current carryforward amount of $27.3 million." However, the previous year's price memorandum for the same cost center stated that "financial results have been consistent and on target in the last few years, so the existing price structure supports the cost center's activities." Again, this demonstrates that A/EX/WCF is not sufficiently assessing carry forward funds.

OIG made some clarifications in the Audit Results section of this report to further explain the findings related to carry forward amounts. Specifically, OIG added "future" before "capital improvements" and removed "other costs" from the sentence. OIG also modified the last sentence of the paragraph to state "target carry forward amounts."

APPENDIX E: OIG REPLIES TO BUREAU OF BUDGET AND PLANNING GENERAL COMMENTS

In addition to concurring with the Office of Inspector General (OIG) recommendations, the Bureau of Budget and Planning (BP) provided general comments in response to a draft of this report (BP's comments are reprinted in Appendix C). Summaries of BP's general comments and OIG's replies are presented below.

BP Comment: BP requested that the sentence in the report that states "When OIG asked BP officials for information regarding the decision on the carry forward fund target for the critical flight safety program, BP officials did not recall making a decision," be changed to "When OIG asked BP officials for information regarding the policy on the carry forward fund target, BP officials noted that a policy existed but was not documented. However, BP advised that carryforward balances were frequently reviewed with service center managers in an effort to monitor demand relative to cost recovery, as well as the potential for 'excess funds.' Department officials were unable to provide OIG with documentation of communications relating to the requested or agreed-upon carry forward fund amounts for the Aviation service center, which [the Bureau of Administration, Office of the Executive Director, Working Capital Fund Division] reported as $45.5 million at the end of FY 2017."

OIG Reply: According to OIG's written notes from the December 2017 meeting, the information included in the report depicts what BP officials said. For example, the BP Budget Analyst attending the meeting stated that she was aware of the conversations regarding the carry forward funds but was not aware of the decision. In addition, the BP System Resources and Operations Director attending the meeting did not provide any information regarding the carry forward decision. Furthermore, the BP Budget Analyst stated that no formal policy existed but carry forward funds were needed to enable capital improvements. However, with respect to "excess" funds, she stated that there is not a policy because there are no excess funds. The BP System Resources and Operations Director elaborated that the Department of State would not need guidance on excess funds because the working capital fund is supposed to break even, so excess funds could never exist. OIG did not make any changes to the report in response to this comment.

BP Specific Comment: BP suggested a clarification to a footnote that discussed the Congressional Budget Justification.

OIG Reply: OIG determined that the information related to the Congressional Budget Justification was not needed to explain or support the statement and therefore removed that portion of the footnote from the report.

ABBREVIATIONS

A/EX/WCF	Bureau of Administration, Office of the Executive Director, Working Capital Fund Division
BP	Bureau of Budget and Planning
FAH	Foreign Affairs Handbook
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
WCF	Department of State Working Capital Fund

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